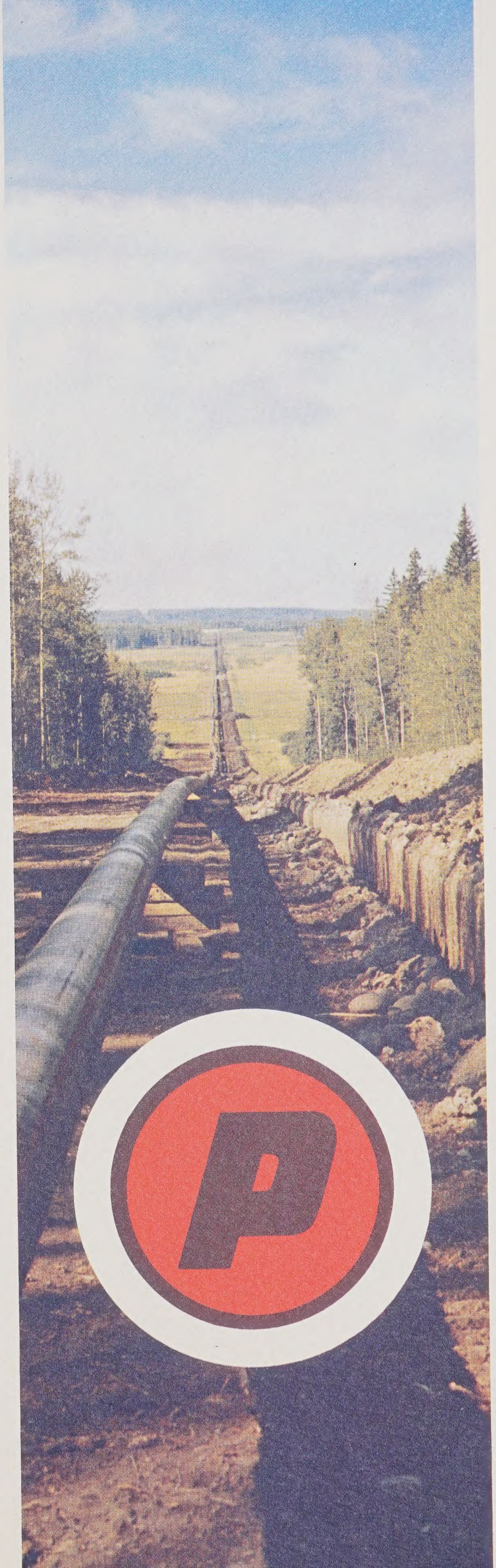

Pembina Pipe Line Ltd Annual Report 1973

Corporate Information

HEAD OFFICE
300 - 9th Avenue S.W.
Calgary, Alberta
T2P 1K4

FIELD OFFICES
Post Office Box 330
Drayton Valley, Alberta
T0E 0M0
Post Office Box 579
Redcliff, Alberta
T0J 2P0

TRANSFER AGENT AND REGISTRAR
Montreal Trust Company
Calgary, Alberta

BANKERS
The Royal Bank of Canada
Calgary, Alberta

SOLICITORS
Saucier, Jones, Black,
Gain, Stratton & Laycraft
Calgary, Alberta

AUDITORS
Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Directors

E. W. COSTELLO
Calgary, Alberta

A. R. CUMMINGS
Calgary, Alberta

T. H. FRANCE
Calgary, Alberta

W. G. GRAY
Calgary, Alberta

F. P. MANNIX
Calgary, Alberta

J. A. McDONALD
Calgary, Alberta

B. L. MONTGOMERY
Calgary, Alberta

A. D. NESBITT
Montreal, Quebec

Officers and Key Personnel

E. W. COSTELLO
Chairman of the Board

T. H. FRANCE
President

R. N. SANDERS
General Manager

T. PARKS
Manager, Oil & Gas Division

L. E. GANO
Superintendent, Pipe Line Division

G. E. BROWN
Manager, Special Projects

G. E. THOMPSON
Controller & Ass't. Treasurer

A. V. COMEAU
Secretary

J. T. WOOD
Treasurer

19th Annual Report 1973

FINANCIAL AND OPERATING HIGHLIGHTS

	Twelve Month Period ending December 31	
	1973	1972
FINANCIAL		
Gross Revenue	$14,687,067	$13,465,359
Net Funds from Operations	5,794,917	6,126,064
per share	66¢	70¢
Net Income	1,158,579	2,233,084
per share	11¢	23¢
Capital Expenditures	7,435,519	4,663,334
PIPE LINE OPERATION		
Deliveries - barrels per day	148,255	157,241
NET PRODUCTION		
Crude Oil & Gas Liquids - barrels	980,944	990,459
Natural Gas Sales - thousand cubic feet	7,807,953	7,892,054
LAND		
Gross - acres	4,824,418	4,461,635
Net - acres	1,362,709	1,359,278
WELLS DRILLED		
Gross	53	81
Net	8.02	15.1

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REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS

We submit herewith the Nineteenth Annual Report of Pembina Pipe Line Ltd. for the year ended December 31, 1973.

Gross revenue for the period under review was $14,687,067, an increase of nine percent over the $13,465,359 reported for the previous year. Net funds from operations totalled $5,794,917 which represents a decrease of five percent when compared with $6,126,064 recorded in 1972. Our exploration costs, non-productive drilling, and abandonments increased to $3,903,685, which reflects a thirty-three percent increase over the $2,945,796 expended in 1972. This significant increase in exploration expenditures coupled with decreasing pipe line throughputs and increased costs of operation are principal factors relating to a reduction in net income.

In the last quarter of the year consideration was given to the method of calculating deferred income taxes in respect of certain of our assets, the amortization of which cannot be claimed for income tax purposes. As a result of discussions with our auditors and in recognition of the current review in the oil and gas industry on the method of accounting for deferred income taxes, it was decided that the annual charges for depletion, depreciation and abandonments relating to these assets should not be included in the computation of deferred income taxes. Accordingly, deferred income taxes have been increased resulting in a reduction in net income of approximately $718,000. Net income thus stated is $1,158,579.

Oil and natural gas production in 1973 was down slightly from 1972 levels: oil production decreased to 2,688 barrels per day from 2,706 barrels per day in 1972 while natural gas decreased to 21.39 million cubic feet per day from 21.56 million cubic feet per day in 1972. Pipe line throughputs exhibited a more severe decline to 148,255 barrels per day, which is slightly more than six percent below the 157,241 barrels per day throughputs for 1972. Federal government actions with regard to freezing prices, coupled with uncertainty on the part of the producers with respect to provincial royalty levels, has undoubtedly caused delays in the capital expenditures necessary to improve production rates from existing projects and to establish new or expanded recovery improvement projects.

Your Company continued as an active participant in Canadian Arctic Gas Study Limited during 1973 and the number of participating companies was increased to twenty-seven. Studies relative to the construction and financing of a large diameter pipe

line and on the feasibility of transporting Arctic and Alaskan gas to consuming areas of Canada and the United States were completed to the extent that initial filing of applications can be accomplished in the spring of 1974.

Pembina's exploration program in 1973 maintained the record high level reached in 1972. While no major discoveries resulted from our programs, we have been successful in establishing new areas for potential future development. A dual zone oil and gas discovery at Medicine River and gas successes at Lac La Biche, Majorville, Medicine Hat and Saddle Lake are of sufficient significance to warrant future exploitation. Two major projects in which the Company was participating at year-end are the Sherwood P-37 well on the south end of Axel Heiberg Island in the Arctic and Porcupine YT F-72 well in the northern Yukon, which has been re-entered for completion of drilling to the projected depth of 9,500 feet.

Our exploration activities were concentrated in the three western provinces, the Yukon, the Northwest Territories and the Arctic Islands.

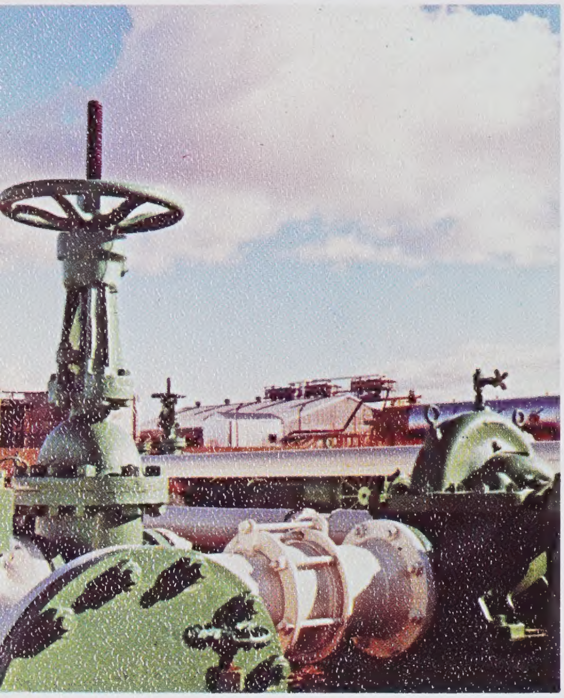
The price of crude oil in western Canada increased by 85¢ per barrel during the first eight months of 1973. Optimism generated by these long overdue increases was dampened somewhat by announcements by each of the provincial governments that royalty payable on crude oil production would be increased.

British Columbia established a new sliding scale royalty based on production which ranges from a minimum of ten percent to a maximum of forty percent.

Alberta established new royalty rates earlier in the year and in the fall announced that these would be rescinded and replaced by a new schedule. It is expected that this new sliding scale royalty will be based on crude oil prices. A new Oil Marketing Commission empowered to buy and sell all crude produced in Alberta was created at the same time.

Royalty rates in Saskatchewan had been increased early in 1973 but new legislation passed in December established a new method of calculating royalty which effectively reserves all future price increases to the province.

In September of 1973, the federal government requested a voluntary price freeze on crude oil and refined products to apply for the last quarter of the year and into 1974. This effectively precluded any further increase in wellhead prices. It has been announced that the freeze will be lifted at the end of the first quarter. A crude oil export tax also announced in September was imposed to price Canadian crude at international price levels in



export markets. This tax was 40¢ per barrel in October, increased to $1.90 per barrel in December and is currently $6.40 per barrel. Allocation of revenues accruing from this tax have not been determined, however, the federal government has proposed a sharing with the provinces. More recent proposals, none of which have been ratified, call for an increase in price after the freeze is lifted with the increase being shared by the federal and provincial governments with the residue going to the producers.

Some advances in the pricing of natural gas are forthcoming. There is, however, general agreement between governments, producers and in some cases, buyers of natural gas that the present prices paid are less than commodity value when related to other forms of energy. Late in 1973, the British Columbia Petroleum Corporation was formed. Their initial action was to increase the wholesale price level of natural gas from 32¢/Mcf to 58¢/Mcf within the province and to 61¢/Mcf for the export market. The stated policy of the Corporation is to establish a higher wellhead price which would be equal in all gas producing regions of the province. The deduction of transportation costs and the Government's share in lieu of royalty, from the wholesale price, has the effect of doubling the previous wellhead price of natural gas.

Alberta has established new sliding scale royalty rates for natural gas production based on wellhead prices. No announcement has been made on field pricing, however, the refusal to grant new permits for gas export from the Province, unless pricing criteria are also satisfied, has exerted upward pressure on price renegotiation and contract offering prices.

Intervention by federal and provincial governments and lack of agreement between them during 1973 has caused confusion and some dismay in the petroleum industry. We believe, however, that agreement can be reached and that the guidelines and policies developed will recognize the necessity of recovery of historical investment and be geared to compensate for future increases in the economy.

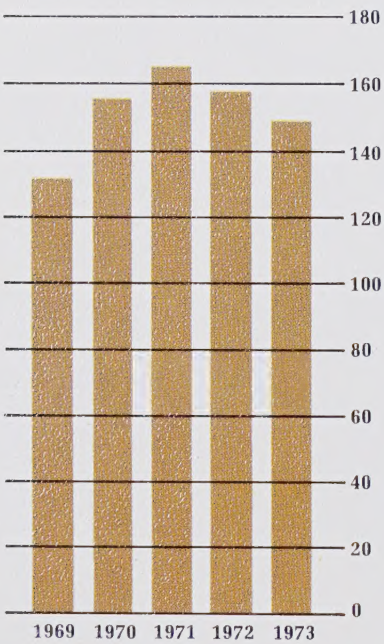
Your Directors wish to express their sincere and grateful appreciation to the employees for their efforts and loyalty during the past year. This dedicated support has a direct effect on the success of your Company.

ON BEHALF OF THE BOARD OF DIRECTORS

T. H. France
President

Calgary, Alberta
March 18, 1974

AVERAGE
PIPE LINE DELIVERIES
Thousands of Barrels/Day



PIPE LINE OPERATIONS

Crude oil receipts during 1973 were 148,255 barrels per day, which is 6.3% lower than the 157,241 barrels per day in 1972. Some uncertainty has been evident on the part of producers due to a lack of firm Government policies affecting future crude oil pricing and royalty structures. This uncertainty has led to delays in capital expenditures to improve production rates and ultimate recovery.

In the eastern portion of the Pembina Field a limited amount of new production is currently being developed in Belly River pools. As a result four miles of four inch and six inch pipe line was built to facilitate the gathering of this crude oil. Included in this construction were connections to two new batteries.

A comparison of crude oil receipts for fields served is as follows:

Field (Barrels)	1973	1972
Pembina	47,515,000	51,538,000
Willesden Green	3,770,000	3,954,000
Bigoray	383,000	271,000
Cyn Pem	1,073,000	646,000
Edson	268,000	146,000
Niton	393,000	392,000
Brazeau (Condensate)	466,000	410,000
Nordegg (Condensate)	194,000	192,000
Peco	51,000	58,000
	54,113,000	57,507,000

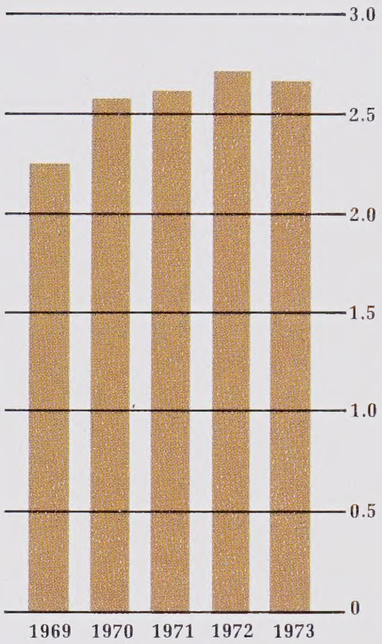
OIL AND GAS OPERATIONS

Production

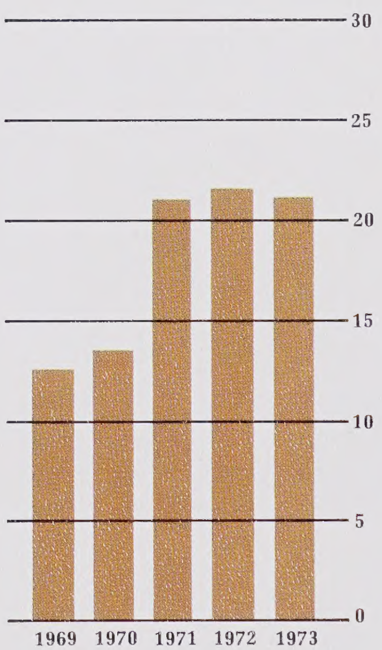
Oil (Barrels)	1973	1972
Alberta	641,643	650,541
Saskatchewan	240,975	226,073
British Columbia	98,326	113,845
	980,944	990,459

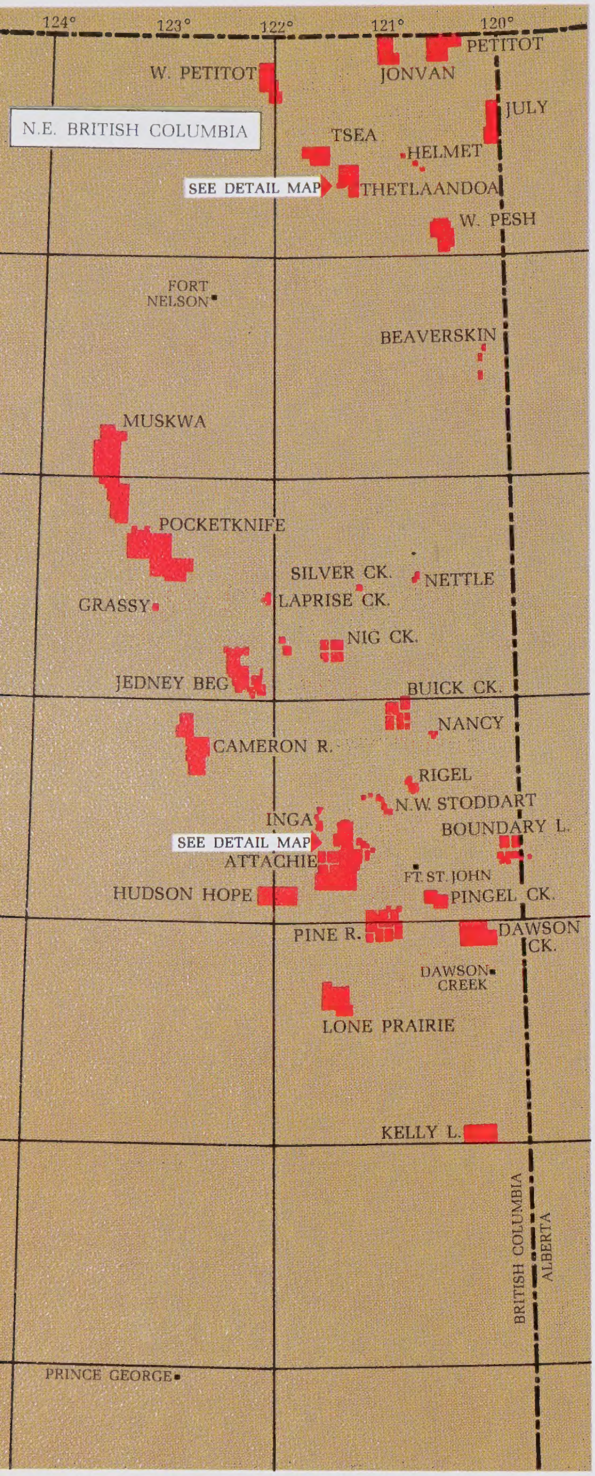
Gas (Thousands of Cubic Feet)	1973	1972
Alberta	7,464,836	7,559,428
British Columbia	343,117	332,626
	7,807,953	7,892,054

OIL PRODUCTION
Thousands of Barrels/Day



GAS PRODUCTION
Millions of Cubic Feet/Day





Crude oil production averaged 2,688 barrels per day in 1973, down slightly from the 2,706 barrel per day average for 1972.

Gas production was also down slightly during 1973. Production was 21.39 million cubic feet per day in 1973 compared to 21.56 million cubic feet per day in 1972.

DRILLING

In 1973 your Company participated in the drilling of twenty exploratory and thirty-three development wells. Eight of the exploratory and two of the development wells were drilled on farmout lands at no cost to the Company.

The exploration program resulted in one oilwell, five gaswells and fourteen abandonments. Twenty-five of the development wells were completed as oilwells, three as gaswells and five were abandoned.

Summary of Wells Drilled in 1973

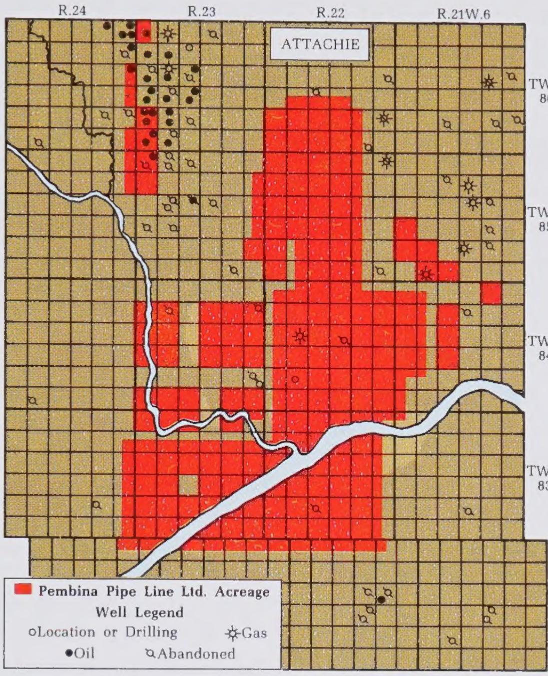
	Oil	Gas	Dry	Total
Exploratory				
Gross	1	5	14	20
Net	0.25	1.17	2.23	3.65
Development				
Gross	25	3	5	33
Net	1.59	0.94	1.84	4.37
Totals				
Gross	26	8	19	53
Net	1.84	2.11	4.07	8.02

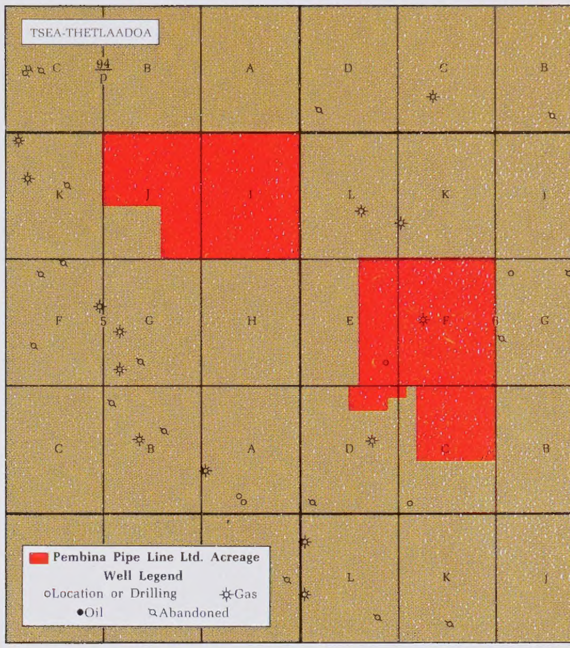
EXPLORATION

Exploration activity was carried out in the western provinces and the frontier regions of the Yukon, Northwest Territories and Arctic Islands.

British Columbia

Substantial work continues in this area where your Company has a prominent land position. Prospective locations have been defined at Thetlaandoa and Cache Creek — two major blocks on which drilling is in progress. The Thetlaandoa acreage is attractively located adjacent to recent gas discoveries, while at Cache





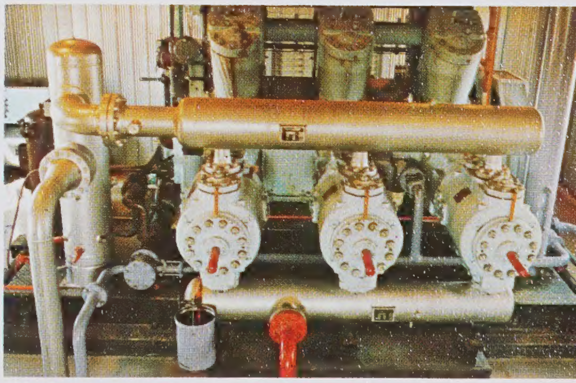
Creek, a potential extension to our No. 7-20 gas discovery is being tested. A gas well has been drilled at Rigel. Further evaluation is scheduled at Dawson Creek and in the Company's discovery area at Laprise. During the past year, land acquisitions have been made in these and other areas. A deep test on the Pocketknife block has been abandoned.

Alberta

Your Company participated in a total of eleven exploratory tests resulting in five discoveries, one oil well and four gas wells. At Medicine River, a dual zone gas and oil discovery was made and has been followed up by a successful offset. Additional development drilling is planned for this area in 1974. Other gas discoveries have been recorded in the Majorville, Lac La Biche, Medicine Hat and Saddle Lake areas.

Saskatchewan

An oil well has been completed in the Midale-Hartaven area and one test well abandoned in the Butte-Illerbrun area. Near Fife Lake, seismic work has been completed on a large acreage spread in which deep prospects will be evaluated as a possible follow-up to a multi-zone oil discovery in Montana.



Yukon Territory

Drilling has resumed on our lands in the Bell River area. The well was suspended at the end of the 1973 winter drilling season.

Northwest Territories

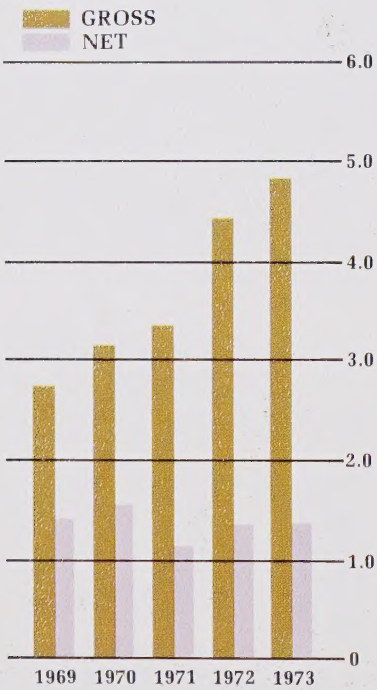
The seismic field work on Pembina lands at Eskimo Lakes has been completed and work obligations have been satisfied until 1976. In the Delta region, released data is being assessed to evaluate the possibility of adding acreage as it becomes available.

Arctic Islands

Pembina has participated in three tests in the high Arctic and a fourth well is in progress at Sherwood P-37. Pembina's working interest in all projects is 10%. Mokka A-20 has been suspended and the Depot L-24 well abandoned. Participation in these two projects has earned Pembina an interest in 282,179 gross acres on two prominent structures on the east coast of Axel Heiberg Island. On Amund Ringnes Island, the E Amund M-05 test has been abandoned. Several shows were recorded in all wells but not of commercial frontier calibre. The East Amund project has earned our Operating Group a total of 36,092 net acres.

By participating in seismic programs covering other Arctic prospects, your Company has earned options to join in subsequent drilling projects.

ACREAGE
Millions of Acres



LAND

During 1973 gross acres increased by 362,783 to a total of 4,824,418; net acres increased by 3,431 to 1,362,709. The newly acquired acreage is in British Columbia, Alberta and the Arctic Islands. Acquisitions in British Columbia were through purchase, in Alberta through purchase, pooling and farmin, and in the Arctic Islands through drilling participation. There was no change from 1972 in our acreage in the Yukon and Northwest Territories.

SUMMARY OF ACREAGE

	1973		1972	
	Gross	Net	Gross	Net
Alberta	1,213,843	400,254	1,222,828	404,980
Saskatchewan	200,497	88,498	208,582	89,766
British Columbia	993,182	365,192	972,849	367,828
N.W.T. & Yukon	896,904	341,242	896,904	341,242
Arctic Islands	1,519,992	167,523	1,160,472	155,462
	4,824,418	1,362,709	4,461,635	1,359,278

Consolidated Statement of Income

Year Ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Revenue:		
Revenue from operations	$ 14,466,181	13,360,683
Income from investments	220,886	104,676
	14,687,067	13,465,359
Expenses:		
Operating	3,608,375	3,452,520
Exploration, non-productive drilling and abandonments	3,903,685	2,945,796
Interest and discount on long term debt	657,962	654,992
Other interest, net	(42,051)	(97,985)
Amortization of goodwill	24,354	25,927
Depreciation and depletion	3,083,042	2,859,387
	11,235,367	9,840,637
Net income before the following	3,451,700	3,624,722
Provision for current year's income taxes	986,121	485,638
Provision for future years' income taxes (Note 2)	1,307,000	906,000
	2,293,121	1,391,638
Net income	$ 1,158,579	2,233,084
Net income per common share	11¢	23¢

See accompanying notes to financial statements.

Consolidated Balance Sheet

As at December 31, 1973 (with comparative figures for 1972)

Assets	1973	1972
FIXED ASSETS, AT COST:		
Investment in carrier property, land, leases, wells and other equipment	$ 78,636,086	76,364,324
Less accumulated depreciation, depletion and amortization	26,875,647	23,941,583
	51,760,439	52,422,741
Operating oil supply	577,151	577,151
	52,337,590	52,999,892
INVESTMENTS, AT COST:		
Bonds and shares of other companies	181,119	221,119
CURRENT ASSETS:		
Cash	13,556	39,563
Short term deposit receipts, at cost	725,000	—
Accounts receivable:		
Trade accounts	1,646,953	1,491,160
Other	70,417	207,840
Materials and supplies, at cost	27,766	25,087
Deposits and prepaid expenses	84,907	86,941
	2,568,599	1,850,591
OTHER:		
Gas Arctic-Northwest Project Study Group	1,692,424	989,437
Goodwill and other intangibles, less amounts written off	363,690	388,044
	2,056,114	1,377,481
	$ 57,143,422	56,449,083

Approved on behalf of the Board:

, Director

, Director

	1973	1972
Liabilities		
LONG TERM DEBT:		
Production loans less current portion (Note 1)	$ 6,791,660	7,791,500
CURRENT LIABILITIES:		
Accounts payable and accrued charges	1,074,546	1,044,069
Sinking fund payments due within one year, less preferred shares held by the company	54,630	300,000
Current income taxes payable	502,694	485,638
Production loan payments due within one year	1,000,000	1,000,000
	2,631,870	2,829,707
DEFERRED TAXES ON INCOME (Note 2)	3,356,000	2,049,000
Shareholders' Equity		
CAPITAL STOCK:		
Second Preferred Shares (Note 3)	4,695,090	4,995,090
Common Shares:		
Class "A" non-voting shares of a par value of $4.15 each		
Authorized: 12,000,000 shares		
Issued: 6,660,128 shares	27,639,531	27,639,531
Class "B" voting shares of a par value of $4.15 each		
Authorized: 4,000,000 shares		
Issued: 1,665,032 shares	6,909,883	6,909,883
	39,244,504	39,544,504
CAPITAL REDEMPTION RESERVE FUND	1,150,000	850,000
RETAINED EARNINGS	3,969,388	3,384,372
	44,363,892	43,778,876
	$ 57,143,422	56,449,083

See accompanying notes to financial statements.

Consolidated Statement of Source and Application of Funds

Year Ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
SOURCE OF FUNDS:		
Funds derived from current operations before charges for depreciation, depletion, amortization, abandonments and provision for deferred income taxes	$ 5,794,917	6,126,064
Production payment from producing properties	4,792,837	1,770,320
Other items	40,000	22,500
	10,627,754	7,918,884
APPLICATION OF FUNDS:		
Net additions to carrier property, land, leases, wells and other equipment	7,435,519	4,663,334
Expenditures as a Participant in Gas Arctic - Northwest Project Study Group	702,987	989,437
Sinking fund payments	300,000	1,956,500
Production loan payments	999,840	977,700
Dividends on First Preferred Shares	—	20,607
Dividends on Series "A" Second Preferred Shares	273,563	299,705
	9,711,909	8,907,283
Increase (decrease) in working capital	$ 915,845	(988,399)
Working capital deficit	$ 63,271	979,116

See accompanying notes to financial statements.

Consolidated Statement of Retained Earnings

Year Ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Balance January 1	$ 3,384,372	2,496,600
Add net income for the year	1,158,579	2,233,084
	4,542,951	4,729,684
Deduct:		
Dividends paid on 5% cumulative redeemable First Preferred Shares	—	20,607
Dividends paid on 6% cumulative redeemable Series "A" Second Preferred Shares	273,563	299,705
Transfer to capital redemption reserve fund re redemption of First Preferred Shares	—	725,000
Appropriation for redemption of Series "A" Second Preferred Shares	300,000	300,000
	573,563	1,345,312
Balance December 31	$ 3,969,388	3,384,372

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 1973

1. PRODUCTION LOANS

Production loans consist of bank loans in the amount of $7,791,660 which mature in 1981. The required payments in each of the next five years are $1,000,000. These loans are secured by certain of the Company's interests in petroleum and natural gas properties and an assignment of the interest in the gas purchase contracts applicable to the pledged natural gas interests.

2. INCOME TAXES

For income tax purposes, the Company is entitled to claim drilling, exploration and lease acquisition costs and tax depreciation in amounts which may exceed the related provisions reflected in the accounts. As at the date of amalgamation, March 31, 1971, the Company had an investment in certain assets which exceeded amounts available for income tax purposes. The annual charges for depletion, depreciation and abandonments which relate to these assets ($1,931,000 in 1973) are expenses which have not been deducted for current income taxes or included in the calculation of deferred taxes on income. Had the aforementioned charges for depletion, depreciation and abandonments been permitted in the computation of deferred taxes, the provision for deferred income taxes would be decreased by $718,000 and net income increased accordingly.

3. SECOND PREFERRED SHARES

	1973	1972
6% cumulative redeemable Second Preferred Shares of a par value of $30 each		
Authorized: 1,100,000 shares		
Issued: 166,503 Series "A" shares	$ 4,995,090	4,995,090
Less redeemed, 1973 - 10,000 shares	300,000	—
	$ 4,695,090	4,995,090

The Company is required to set aside as a sinking fund, not later than April 1st of each year, a sum sufficient to retire $300,000 par value of the Series "A" Second Preferred Shares in each year until they have been retired. The Company may, upon giving thirty days notice, redeem at any time the whole or any part of the Series "A" Second Preferred Shares at the par value.

4. BASIS OF CONSOLIDATION

Included in the consolidated statements are the accounts of all subsidiary companies, each of which is wholly owned.

5. REMUNERATION OF DIRECTORS AND OFFICERS

The remuneration paid to Directors and Senior Officers of the Companies for the year ended December 31, 1973 was $231,930.

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Pembina Pipe Line Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiaries as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Alberta
March 1, 1974

Pembina Pipe Line Ltd. and Subsidiary Companies

Ten Year Review

		1973*	1972*	1971*	1970*	1969	1968	1967	1966	1965	1964
Financial (in thousands of dollars)											
Gross revenue	$	14,687	13,465	13,703	12,208	10,146	8,950	8,109	7,478	7,455	7,073
Net flow of funds from operations	$	5,795	6,126	7,825	7,529	6,348	5,837	5,373	4,666	4,842	4,808
per common share**	$	.66	.70	.91	.87	3.78	3.47	3.19	2.76	2.94	2.94
Net income***	$	1,159	2,233	3,252	3,143	2,518	1,735	1,478	1,428	1,472	1,544
per common share**	$	.11	.23	.36	.34	1.48	1.01	.85	.82	.86	.91
Capital expenditures ..	$	7,436	4,663	7,493	7,774	3,034	9,867	3,452	3,540	5,465	4,307
Investment in fixed assets at year end — at cost	$	79,213	76,941	74,217	67,142	59,349	56,475	47,767	45,121	41,694	36,345
Long term debt less current maturities at year end	$	6,792	7,792	9,826	5,121	6,787	9,041	7,091	8,776	10,047	9,308
Operations											
Pipe Line:											
Average deliveries — barrels per day		148,255	157,241	164,937	155,469	130,590	120,970	117,120	114,430	118,270	120,850
Miles of line built in year		4	—	10	50	54	6	4	12	39	37
Miles of line at year end		1,049	1,045	1,045	1,035	985	931	925	921	909	870
Oil and Gas:											
Net Production — Crude oil and natural gas liquids — barrels		980,944	990,459	951,525	964,053	825,700	591,900	300,000	201,300	122,100	14,000
Natural gas sales — billion cubic feet ...		7.81	7.89	7.69	4.96	4.62	4.43	4.50	3.61	3.28	1.30
Acreage at year end:											
Gross — acres		4,824,418	4,461,635	3,359,023	3,106,737	2,736,709	1,868,979	1,470,659	1,153,146	927,811	1,364,603
Net — acres		1,362,709	1,359,278	1,169,304	1,571,307	1,418,608	1,117,371	1,173,432	892,979	819,957	1,033,740
Wells drilled — gross ..		53	81	68	50	53	34	13	15	15	
Wells net at year end:											
Oil		67	65	64	62	59	55	30	23	17	10
Gas		73	72	63	58	53	51	49	46	39	8

* The information provided for 1970 and subsequent years is based on twelve months ending December 31, whereas the information pertaining to 1969 and prior years is based on a twelve month period ending November 30.

** The net income and net flow of funds from operations per common share for 1970 and subsequent years are based on the share capital outstanding after giving effect to the amalgamation at March 31, 1971.

***In 1968 a change was made in the method of accounting for deferred income tax credits.

Pembina
Pipe Line Ltd
Annual Report
1973

SMITH GRANT MANN ALBE
Litho'd in Canada

300 - 9th AVENUE S.W., CALGARY, ALBERTA

SMITH GRANT MANN ALBERTA
Litho'd in Canada

INTERIM REPORT OF PEMBINA PIPE LINE LTD.

for
six months
ended
June 30, 1973

To the Shareholders

FINANCIAL

This Interim Report reflects the earnings of your Company for the six month period January 1 to June 30, 1973.

Gross revenue for the period of $7,161,000 reflects a 6.3% increase over the $6,739,000 recorded in 1972.

Net funds derived from operations were $1,959,000 (21.8¢ per share), a decrease from the $3,526,000 (40.4¢ per share) recorded for the first half last year. Increased exploration expense was the principal cause of this reduction. Net income, after providing for all expenses, was 5.5¢ per share compared to 15.8¢ per share for the first six months in 1972.

OPERATIONS

Pipe Line

Average pipe line system receipts were 151,886 barrels per day for the first six months of 1973, a 4.7% reduction from 159,405 barrels per day for the comparable period in 1972.

Production and Drilling

Crude oil production for the first six months of 1973 averaged 2,841 barrels per day compared to 2,642 barrels per day for the same period last year. Natural gas production for the first six months of 1973 averaged 22.15 million cubic feet per day compared to 21.59 million cubic feet per day for the same period last year.

Your Company participated in the drilling of 34 wells during the first half of 1973. Seventeen wells were completed as oil wells, three were gas wells, drilling at one well was suspended pending freeze-up in the fall and the remaining 13 wells were abandoned.

Exploration

Drilling activity during the early part of the year has resulted in gas discoveries at Crossfield and Lac La Biche with a dual zone gas and oil discovery recorded at Medicine River. These areas are located in Alberta while in Saskatchewan a successful Midale oil extension was drilled in the Hume area.

In the Arctic, Pembina has participated in the drilling of two deep tests on Axel Heiberg Island which has earned the Company varying interests in 282,179 gross acres (8,452 net acres). On Amund Ringnes Island your Company is a 10% participant in the currently drilling Imp. Panarctic Union P.P.L. E.Amund M-05 test.

A seismic program has been completed on wholly owned lands in the Eskimo Lakes area, Northwest Territories. The Elf et al Kiligvak I-29 test is presently drilling some 10 miles to the north of these permits.

In British Columbia, drilling is planned in the Rigel and Cache Creek areas, both of which are located within a short distance of known gas reserves and recent discoveries. Company holdings in the Thetlaandoa area have been offset by the drilling by others of two successful gas wells.

The Bell River deep prospect test in the Yukon is scheduled to resume drilling this coming winter after seasonal suspension of activity.

Calgary, Alberta
July 27, 1973

W. Gray
President

PEMBINA PIPE LINE LTD.
and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

	Six Months Ended June 30 (Unaudited) 1973	1972
Revenue:		
Revenue from operations	$7,048,000	6,678,000
Income from investments	113,000	61,000
	7,161,000	6,739,000
Expenses:		
Operating	1,689,000	1,712,000
Exploration, nonproductive drilling and abandonments	2,461,000	1,221,000
Interest and discount on long term debt	293,000	352,000
Other interest, net	40,000	(52,000)
Amortization of goodwill	12,000	13,000
Depreciation and depletion	1,546,000	1,401,000
	6,041,000	4,647,000
Net income before the following	1,120,000	2,092,000
Provision for income taxes	522,000	610,000
Net income	$ 598,000	1,482,000
Net income per common share	5.5¢	15.8¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1973	1972
Source of funds:		
Funds derived from current operations before charges for depreciation, depletion, amortization, abandonments and provision for deferred income taxes	$1,959,000	3,526,000
Production payment from producing properties	2,308,000	870,000
Other items	40,000	
	4,307,000	4,396,000
Application of funds:		
Net additions to carrier property, land, leases, wells and other equipment	763,000	1,255,000
Expenditures as a Participant in Gas Arctic-Northwest Project Study Group	369,000	
Sinking fund payments	300,000	1,657,000
Production loan payments	500,000	478,000
Dividends on first preferred shares		15,000
Dividends on Series "A" second preferred shares	140,000	150,000
	2,072,000	3,555,000
Increase in working capital	$2,235,000	841,000